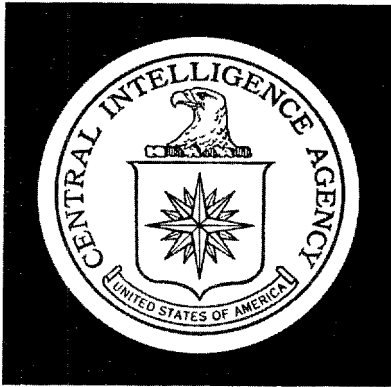


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

State Dept. review completed

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(Information as of noon EST, 11 January 1968)

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FAR EAST

Hanoi is seeking to exploit the impact of Foreign Minister Trinh's statement that North Vietnam "will hold talks" with the US after an unconditional cessation of bombing and other "acts of war." The North Vietnamese have claimed that this statement has been warmly welcomed throughout the world and have denounced President Thieu for blocking openings to peace and for rejecting a coalition government with the Liberation Front.

These moves have stimulated widespread uneasiness in South Vietnam regarding the US attitude toward talks and a coalition settlement. Saigon leaders have reiterated their opposition to a coalition and the National Assembly has rejected any dealings with the Liberation Front. The South Vietnamese Government reportedly suspended a newspaper because it indirectly advocated the idea of a coalition.

A series of Viet Cong attacks last week within a 30-mile radius of Saigon and in the Hue and Da Nang areas probably were aimed in part at aggravating political unrest and uncertainty in the South by demonstrating the government's inability to protect these heavily populated areas.

Prince Sihanouk's initial public comments on the Bowles mission underline his primary objective of discouraging South Vietnamese and US forces from pursuing Communist forces into Cambodian territory. He praised American restraint in dealing with this problem, claimed that Ambassador Bowles had stated that the US would not invoke the doctrine of "hot pursuit," and stressed Cambodia's desire to strengthen the International Control Commission's ability to prevent all foreign infiltration.

There are no signs that the divided leaders in Peking have been able to agree on firm measures to deal with spreading conflict and disorder throughout China or to check the steady erosion of Peking's authority in the provinces. Peking's propaganda continues to ignore widespread fighting, blandly portraying the situation as "excellent."

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VIETNAM

Foreign Minister Trinh's assertion on 30 December that North Vietnam "will" talk with the US if all war acts against North Vietnam are stopped unconditionally has provoked wide speculation on possible changes in the North Vietnamese policy. So far, however, Hanoi has not chosen to elaborate on this statement. The Communists have carefully construed it as a reiteration of a long-standing position and not as a concession.

Although the modification in Hanoi's official position set forth in the Trinh statement seems motivated primarily by a desire to end the bombing and stall any major US escalation, it may also have been promoted in part by a desire to probe both for US negotiating terms and for signs of US willingness to modify its objectives in Vietnam.

The Communists may, for example, believe they detect modifications in the US position on dealing with the National Liberation Front. Hanoi has not commented explicitly on US statements about possible representation of the Front in future peace negotiations, suggesting that the Communists see these statements as a sign of greater US flexibility.

Meanwhile, rumors generated by the North Vietnamese state-

ment have sparked widespread uneasiness in South Vietnamese circles that the US might be preparing to open negotiations with Hanoi or to accept a coalition government in the South that would include the National Liberation Front. Both houses of the National Assembly have addressed themselves to this question during the past week.

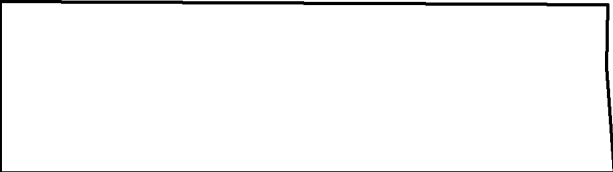
High Saigon officials, moreover, have recently reiterated their opposition to any coalition government with the Front. Although the concern will probably not reach a level at which it becomes a critical factor in GVN-US relations, it could begin to affect the Vietnamese response to US initiatives on pacification and other nation-building activities in South Vietnam.

The Communists lost little time in capitalizing on the political unrest in South Vietnam. On 7 and 8 January, Hanoi radio and the Liberation Front condemned South Vietnamese President Thieu's opposition to a coalition government and attempted to contrast his negative attitude with the Front's more positive approach to the concept. While endorsing the coalition idea in general terms, the Front has not been very forthcoming in spelling out the details of an acceptable coalition arrangement.

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The Front's current political program, for example, offers to accept into the Front's ranks almost anyone willing to support its objectives. This has been a long-standing policy, however, and one designed more to broaden popular support than to present a precise proposal for a "coalition government" with disaffected Saigon officials. The new program recommends a future government established after general elections, but it is deliberately vague about the steps to achieve this. It does not commit the Front to negotiations with the present Saigon leadership for the purpose of forming a coalition government.

Although recently captured documents indicate that the idea of a coalition has been discussed extensively within the Communist movement for several months, these discussions are also vague on details and timing.



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A new problem facing the Thieu government is the proffered resignation of General Nguyen Duc Thang, deputy chief of the Joint General Staff in charge of Revolutionary Development cadres. Thang's wish to resign apparently stems from what he considers foot-dragging on the part of the government in instituting vital reforms, including a reorganization of the armed forces, which would strip the corps commanders of much of their power base. Although Thang's resignation has been rejected, it still could prove to be a source of embarrassment if the press--which has lionized Thang--becomes aware of his resignation attempt and the reasons behind it.

Increased Military Activity in the South

Viet Cong guerrilla and local forces were active this week throughout South Vietnam.

A flurry of large-scale, enemy-initiated attacks occurred within a 30-mile radius of the center of Saigon. During a five-day period, four major actions occurred near the capital city, including two bold assaults on nearby towns. Most of these actions saw extensive enemy use of mortars, both preceding and during ground attacks. For example, some 600 mortar rounds were fired as part of a Communist attempt to overrun the capital of Hau Nghia Province.

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Intense enemy mortar and rocket barrages were also directed at strategic US and allied military installations elsewhere during the week. A US Marine supply base near Da Nang was struck by a 122-mm. rocket bombardment in a close follow-up of last week's heavy rocket attack on the Da Nang airfield itself. An attack on the US air base at Kontum in mid-week inflicted moderate casualties and extensive damage to aircraft and associated equipment.

This phase of the Communist winter-spring campaign has been marked by unprecedented enemy losses--a record 2,868 Communists were killed last week--as well as by an extremely high level of enemy aggressiveness throughout South Vietnam. It is possible that the enemy is attempting a particularly heavy show of force to gain the maximum psychological advantage with the populace prior to the Tet holiday that begins on 30 January. Communist military preparations, however, appear to foreshadow a resumption of major offensive action after Tet.

Communist main force units continue to pose a major threat in three border areas: western Quang Tri - DMZ, western highlands, and northern III Corps.

Enemy reconnaissance activities and probing attacks against many allied outposts in these areas have increased. Such actions may signal full-scale assaults on some of these outposts.

Possible Cruise
Missiles in DRV

North Vietnam may have acquired short-range, surface-to-surface missiles intended for coastal defense. Possession of such weapons, if confirmed, would pose a significant threat to US warships conducting shore bombardment operations along the DRV coast.

[redacted] analysis of photography revealed two positions just south of Thanh Hoa which contain camouflaged equipment, including one object identified as probably an SS-N-2 missile and several possible rail-type launchers. This missile has a range of about 20 miles and was the weapon used by the Egyptian Navy on 21 October 1967 to sink the Israeli destroyer Eilat. The suspected sites were bombed repeatedly by US Navy aircraft on 5 and 6 January, but there is no firm evidence from photography or pilot reports that either site was occupied at the time of the attack. [redacted]

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CONFUSION IN COMMUNIST CHINA

Fighting and disorder continue to be reported from many areas. Those most frequently mentioned are the southwestern provinces and southeastern coastal cities, but the conflict probably has spread to nearly every province.

Committees" and in unifying political factions in "grand alliances." The propaganda has a defensive tone, however. On 8 January, the New China News Agency hailed the recent formation of the Kiangsi Revolutionary Committee as proof of a recent assertion by Mao Tse-tung that the "situation is not just good, it is excellent," and in a few months will "become better still."

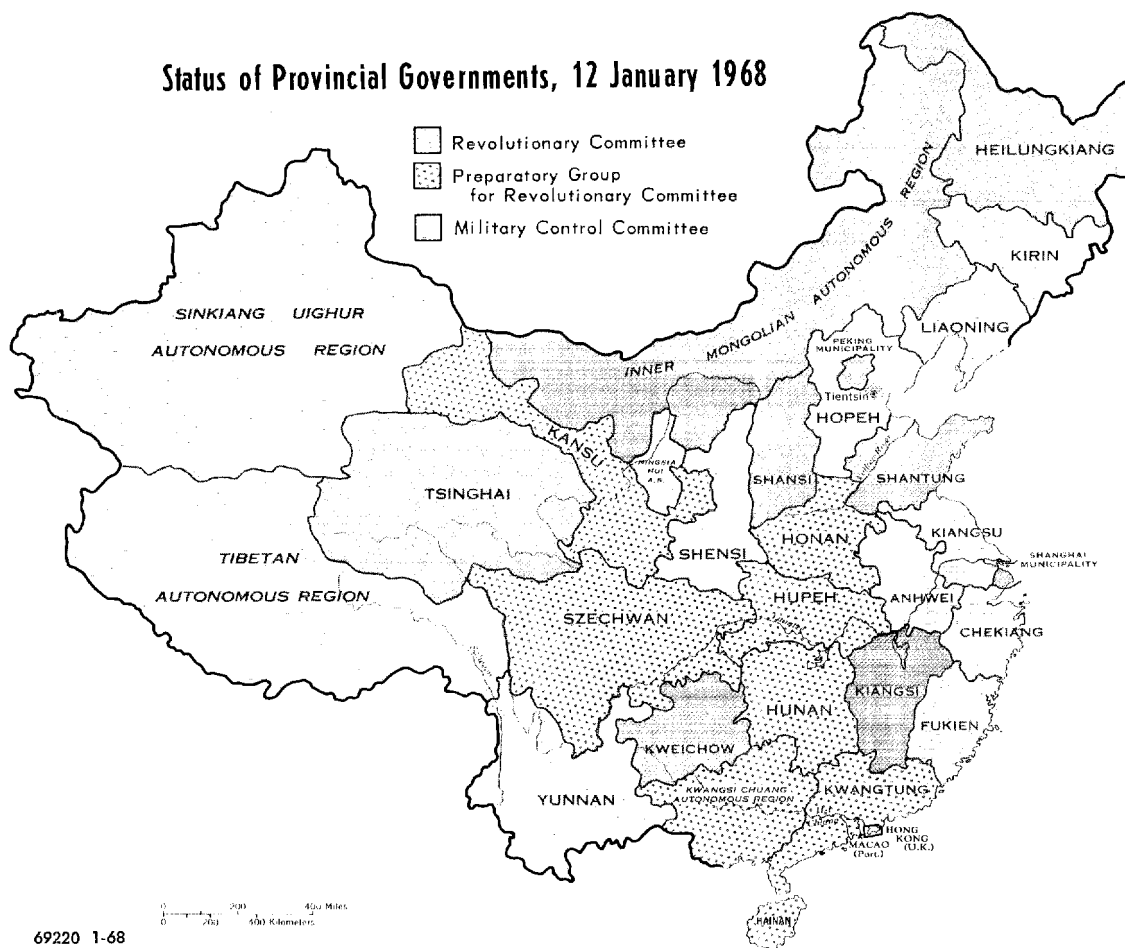
This bland portrayal of the situation is belied by considerable evidence from provincial newspapers [redacted] that the leadership is in trouble in several of the ten Revolutionary Committees established in the past year. Peking represents these as stable areas governed by Maoist approved leaders.

[redacted] a main target of attack at the moment is the chairman of the Kweichow Revolutionary Committee. He has never been under fire before and played a central role for the Maoists last spring and summer, not only in Kweichow but elsewhere in the southwest. The leaders of the Heilungkiang Revolutionary Committee have also been denounced by Red Guards in the last two

None of this disorder is reflected in Peking's propaganda, which stresses such themes as the progress allegedly being made in forming "Revolutionary

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months.

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Thus far, leaders in Peking seem to have been unable to reach agreement on how to deal with the spreading violence, and as a result their guidance has been indecisive and ineffectual in checking the erosion of Peking's authority in the provinces.

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NEW MODERATION IN PEKING'S FOREIGN POLICY

Although Communist China continues to be wracked internally by Cultural Revolution violence, an increasing number of indications suggest that advocates of moderation in Peking have managed to regain their influence over foreign policy, which had been lost to revolutionary extremists last summer.

The return to a more moderate and cautious approach has been reflected in actions Peking has taken to ease tension in Hong Kong.

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Peking has clearly been concerned with the failure of extremist tactics in Hong Kong. It probably hopes that a moderate approach will be more effective in attracting the support of dissatisfied non-Communist groups and thus win over a broader section of the population.

base among the masses, which was cited as a necessary prerequisite for "people's war." The Burmese party, in particular, was lauded for its "20-year revolutionary civil war," but probably derived little comfort from Peking's admonition that further "protracted struggles" lie ahead.

None of the statements contained even a pro forma pledge of Chinese support. The rosy picture of "excellent revolutionary situations" noted by Peking seems primarily designed to cover China's reluctance to involve itself more heavily in the armed struggles within the three countries.

Peking's preoccupation with domestic affairs and the war in Vietnam has encouraged a restrained attitude toward armed struggle by "fraternal parties." This recent tone of pragmatic moderation, however, has also coincided with Foreign Minister Chen Yi's apparent recovery of much of his political importance and his control over the Ministry of Foreign Affairs. Chen Yi, who in effect was suspended last summer while under heavy attack by Red Guard proponents of "revolutionary" diplomacy, resumed a busy schedule in November. On 28 December, he received the French ambassador, his first such session with a Western diplomat in a year.

Peking's recognition of the futility of premature resort to revolutionary violence was also evident in NCNA's year-end status reports on the Communist movements in Laos, Burma, and Thailand. Peking hailed a series of "brilliant victories" allegedly won by these groups but laid heavy stress on the long-term nature of "people's war" and the virtue of "self-reliance." The three parties were applauded for their efforts in building a popular

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JOHN GORTON: AUSTRALIA'S NEW PRIME MINISTER

Australia's new prime minister, John Gorton, is not expected to make any major changes in foreign or domestic policies. He has reaffirmed Australian determination to stay in the Vietnam war and to show the Communists that "aggression does not pay."

Gorton, 56, has been increasingly influential on the Australian political scene for two decades. His leadership qualities will now be put to the test in efforts to arrest the erosion of popular support for the governing Liberal-Country coalition. This decline stems in part from former Prime Minister Holt's lack of a firm hand in maintaining discipline within the coalition leadership. The government has also been embarrassed by its inept handling of several recent domestic issues.



John G. Gorton

Moreover, the opposition Labor Party has greatly improved its image since Gough Whitlam replaced old and erratic Arthur Calwell as party leader early last year. Labor's increased popularity was demonstrated in the senatorial elections of November 1967, when it received 45 percent of the popular vote compared with the coalition's 42 percent. Gorton's priority political task, therefore, will be to reverse the trend toward Labor before the next scheduled election in November 1969.

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A forceful and likeable personality, Gorton has held many executive posts over the years. In addition to serving as senator since 1949, he has been minister of the navy, of works and mining, and most recently of education and science. He has acted as the government's foreign affairs spokesman in the Senate, and since last October has also been the coalition's majority leader. Within the next few weeks, Gorton is expected to resign from the Senate and seek election to Holt's former seat in the lower house, from which prime ministers are traditionally chosen.

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EUROPE

The outline of plans for a sweeping liberalization of domestic policy and a more independent foreign policy has been broached in the Prague press following the election on 5 January of Slovak leader Alexander Dubcek as the new Czechoslovak party first secretary. Dubcek apparently has chosen this means to make known his aspirations and intentions. From Warsaw, in the meantime, rumors continue to be reported of behind-the-scenes political maneuvering and of plans for a reorganization of the top Polish party leadership.

In Moscow, there were intimations that the party central committee is to meet later in the month. Possible agenda items include the situation in Czechoslovakia, on which the top Soviet leadership may wish to present its views, and the plans for the consultative meeting of Communist parties now set to open on 26 February in Budapest. It is also widely rumored that party secretary Demichev is to be demoted at the meeting, possibly to the Ministry of Culture.

The restoration of diplomatic relations between Bonn and Belgrade appears to be drawing nearer. Actual negotiations may begin later this month, probably at some neutral site since neither side apparently wishes to hold talks in the other's capital.

Top British officials were on the move this week spreading the news of London's decision to slash its foreign military commitments. Commonwealth Secretary Thomson was touring Southeast Asia, while Foreign Minister Brown stopped in Tokyo and Washington. Prime Minister Wilson is due in Washington on 8 February following a visit to Moscow on 22-24 January.

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CZECHOSLOVAKIA'S NEW LEADER CHARTS BOLD COURSE

Within a week of replacing long-time Czechoslovak party boss Novotny, Slovak leader Dubcek has moved boldly to set in motion far-reaching changes benefiting society and the individual, but he has many problems to overcome in this endeavor.

Dubcek has shown a keen awareness of the necessity for realistic responses to the serious problems facing the country, particularly on the domestic scene. He has also made clear his understanding of the needs of the people.

On 10 January the official party daily, Rude Pravo, published an article that set forth in broad outline a series of radical proposals. If implemented, these proposals would constitute a domestic policy more liberal than that of Yugoslavia. This plan presumably reflects the consensus of the central committee under Dubcek. It emphasizes that henceforth Czechoslovak democracy must always be concerned with the rights and liberties of the individual. Moreover, the party may no longer use its power to undermine this ideal "by the pressure of authority in the name of the community's interests." As a corollary, the article points out that Czechoslovakia must develop forms of administration that create "more and more room for self-administration."

The article also asserts that the party must withdraw from its

ubiquitous role in society and must remove itself from the direct administration of the government and the economy. In order to accomplish this, Czechoslovak officials, from the highest to the lowest levels, will no longer be permitted to hold both government and party posts. It appears that virtually all party leaders, as well as thousands of middle-level functionaries will be affected.

Personnel changes in the party and government, as well as structural changes in the latter, are in fact being considered. The National Assembly convened earlier this week, presumably to decide upon these shifts. Premier Josef Lenart--who, like Dubcek, is a Slovak--is almost certain to lose his job because it would be impolitic for Slovaks to hold both top party and government posts; he is also said to have supported the ousted Novotny. Other officials who may be significantly downgraded include party secretary and ideology chief Jiri Hendrych, and Foreign Minister Vaclav David, both of whom are of the Novotny mold. Novotny himself apparently will be allowed to keep the presidency at least for the time being.

In foreign policy, Dubcek may take a more nationalistic line than his predecessor, seeking better relations with the West and the US in particular, and possibly reopening talks with West Germany on the

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establishment of diplomatic relations. Indeed, if the Rude Pravo article is any indication, Dubcek apparently envisions a foreign policy as independent as Rumania's.

Dubcek will need time to consolidate his position and to form a more stable coalition. This will be a complicated process because he will have to loosen the party's absolute grip on political power to make his reform programs work and to satisfy liberal demands for greater cultural and political freedom. He will undoubtedly encounter stiff opposition from many of the entrenched regional and district functionaries, who have in the past thwarted efforts at reform in order to protect their positions. In anticipation of such a response, and as a means of countering it, Dubcek has already sent selected party presidium members and certain of his Slovak party colleagues on speaking tours around the country to explain his new programs.

Novotny and his hard-line cronies remain for the present on the party presidium. Although their tenure seems limited and their influence is probably in abeyance at this point, Dubcek himself may not be able to count on the unqualified support of a majority of the presidium members. His position may have been strengthened, nevertheless, by the enlargement of the presidium by four members experienced in some of Czechoslovakia's key problem areas.

Dubcek's election appears to have been a last-minute compromise among factions within the presidium and central committee. No member of the Slovak minority has ever held the top party post, and Dubcek's activities will be closely scrutinized. Czech leaders almost certainly resent him, partly because of his youthfulness, but primarily because the Slovaks over the years have been in the vanguard of the opposition to Novotny.

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EAST GERMANY TRYING TO FORMULATE NEW VIEWS TOWARD BONN

Considerable confusion seems to have accompanied East German (GDR) efforts in recent weeks to formulate a comprehensive response to repeated official and unofficial West German (FRG) overtures for closer, but unofficial, relations. In the past six weeks, Pankow has issued contradictory statements on the status of West

Berlin and the "two Germanies" within the German nation.

The Soviet Union did not support East German leader Walter Ulbricht's claim on 1 December that West Berlin "legally" belongs to the GDR. Since then, GDR spokesmen, including Ulbricht, have reverted to the less-threatening, standard line that West

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Berlin is an "independent political entity."

The regime's recent comments on certain proposals concerning the two Germanies and the German nation probably reflect its deep need to justify again--particularly for its Eastern European allies--its hard-line policy toward Bonn.

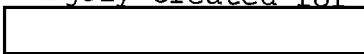
The most significant expression of these views appeared on 28 December in a Neues Deutschland article ostensibly written by Wolfram Neubert, a lecturer in the Communist Party's Institute for Social Sciences. Without mentioning it by name, Neubert was responding to an unofficial study widely publicized in West Germany that was designed to show the way to reunite the German nation. Neubert ostensibly rebutted the study's contention that the German nation is now composed of two "constituent states," but his arguments actually paralleled some in the study. He stated, for example, that the "German nation continues to exist...in the form of two different (sovereign) states together with the independent political entity of West Berlin."

The "peculiarity" that the GDR and FRG are "states of one nation," however, does not mean

to Neubert that normal interstate relations should not be pursued. Such relations, he rationalized, would not mean that the GDR would consider West Germany and West Berlin as "foreign" states. "They were, are, and will remain German." Neubert thus contradicted earlier statements by East Germany's leading propagandist.

Neubert also argued that the "national needs of all Germans" and the true interests of the German nation are presently protected and fostered by the GDR. In so doing, he went further than any other East German official in advancing the claim that Pankow rather than Bonn has the right to represent all Germans. There are indications that this aspect of Neubert's arguments will serve as the basis for East German propaganda in the coming months.

Neubert's formulas, however, will be difficult to sustain because they seem to give Bonn an opportunity to pursue its policy of limited rapprochement with East Germany, and probably will not be effective in dampening Eastern European desires to establish diplomatic relations with West Germany. In the meantime, the East Germans probably will have to continue to search for a way out of the impasse they have largely created for themselves.



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USSR CONTINUES COMMERCIAL AIRCRAFT SALES CAMPAIGN

The USSR continues to eye the world commercial aircraft market with considerable interest. Soviet aircraft promoters are busy in Western Europe and in Latin America, but so far their sales campaign has been unrewarding.

Moscow is pushing hard to break into traditional US and British markets in Latin America. Political considerations and a general unfamiliarity with Soviet aircraft, together with concern over spare parts, maintenance, and technical assistance, have thus far prevented the Soviets from gaining an entry into the market despite offers of discount prices and attractive financial terms.

Moscow now has come up with a new twist designed to attract customers. It is offering to lease TU-134 medium-range jets at a "reasonable" price to a domestic Brazilian airline for a two-year period, after which they could be purchased with the rental fees applied to the cost. This type of arrangement, which is to be offered to other Latin American countries, could prove attractive because it provides

an opportunity to determine whether the Soviet aircraft are economically competitive in operation before a decision to purchase is made.

Moscow has had no luck in Western Europe in pushing sales of its transports, such as the AN-24 and the TU-134, which face heavy competition from established Western manufacturers. The new Soviet IL-62 four-jet 186-passenger aircraft, comparable to the British VC-10, may receive a boost when one leased by Air France is introduced on the Moscow-Paris run this summer.

Helicopters remain the USSR's best seller. Considerable interest has been shown in Western Europe in the large MI-6 and MI-10 (Flying Crane) helicopters, which have no counterparts in the West. The MI-8 28-passenger helicopter, significantly cheaper than the comparable Western model, also is attracting some buyers. In an effort to capitalize on this interest, Moscow now is emphasizing the commercial adaptations of this type of plane for fire fighting, passenger transport, agricultural work, and cargo carrying.

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BRITISH GOVERNMENT PONDERES BUDGET CUTS

The British cabinet has been considering proposals for massive cuts in government spending affecting both domestic and foreign policy. An announcement of the results of these discussions is expected when Parliament returns from its Christmas recess in mid-January.

Cuts in defense spending will amount to approximately 400 million pounds of the one billion pounds the government wants to save by 1970. The savings will be made at the expense of commitments to SEATO, Malaysia, and the Persian Gulf states. The F-111 contract with the US probably will also be affected.

Britain will probably pull the last of its forces out of the Malaysia/Singapore area by the end of 1971, if not sooner. Commonwealth Secretary Thomson--dispatched to Commonwealth countries in the Far East to inform them of the proposed cuts--is talking in terms of withdrawing by mid-1971. A similar timetable for departure from the Persian Gulf also seems probable. It is unlikely, however, that troop levels will be cut in Hong Kong, Malta, or Cyprus, and the question of reducing British forces in Germany will be deferred

pending talks with the US and West Germany.

Defense Minister Healey is fighting for retention of the F-111 contract, primarily on the grounds that US cancellation charges would be prohibitive. Faced with formidable opposition, Healey is hoping for a compromise that would reduce the number of F-111s purchased from 50 to 35.

As part of the cut in non-defense expenditures, the British press has reported that London may pull out of the UK-French Concorde supersonic transport program, and postpone a project to construct a tunnel under the English Channel. In the case of the Concorde, doubts about its long-term economic viability contribute to London's reluctance to continue.

Nevertheless, the government still must reduce domestic spending in order to channel resources into export industries and hold price and wage levels in check. Among the domestic measures most frequently mentioned as vulnerable are free medicine under the health program, highway construction, and the planned rise in the compulsory education age from 15 to 16.

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The Wilson government undoubtedly believes that trimming some of Labor's sacred social welfare programs poses a real danger of a split with the party's left wing. A speed-up of defense

cuts and cancellation of other projects would permit less drastic reductions in social programs and help promote party unity.

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DANISH ELECTORAL OUTCOME UNCERTAIN

The special election in Denmark on 23 January will mark the second time in just over a year that Prime Minister Krag and his Social Democratic Party (SDP) have been compelled to seek a fresh mandate from the electorate for the government's economic policies.

Because of the proliferation of political parties--11 will participate in this election--Denmark has had coalition or minority governments ever since World War II. This time, the odds are once again against the emergence of a strong government that could push through the comprehensive anti-inflationary measures required to allow Denmark to benefit from its recent devaluation.

One result of the election could be the reconstruction of a minority Social Democratic cabinet, weak and dependent on the parties of the left and right for support on specific issues. On the other hand, if the so-called "bourgeois" parties make significant gains, they will be encouraged to overcome their differences and try to form the first non-Socialist government in 15 years.

Public opinion polls indicate that the SDP is likely to lose some of the 69 seats it now holds in the 179-member parliament, and that the two major non-Socialist parties may increase their 69-seat total. Neither group is expected to win a parliamentary majority. The balance of power in parliament is again likely to

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be held by the smaller parties--the far left Socialist People's Party (SPP) and the Radical Liberals. Both parties favor downgrading Denmark's defense commitments to the Western alliance. The neutralist-oriented Radical Liberals advocate slashing defense spending, and the SPP urges withdrawal from NATO and adoption of neutrality.

Ever since the 1966 elections in which the SPP doubled its representation and obtained a pivotal position in parliament, Krag has been forced to depend on the SPP for support on domestic policies. Krag's uneasy alliance with this anti-NATO party was opposed not only by conservatives in his own party, but also--and more

strongly--by a radical left-wing faction in the SPP which favored demanding a higher price from Krag for the party's support. It was this dissident SPP faction that broke ranks with the party and brought down the Krag government in mid-December. It has since split off completely from the SPP and formed a new party, thus adding another element of uncertainty to Denmark's already murky electoral scene.

There seems little likelihood at this time that the post-election government will be under pressure to take measures that would affect the status of US installations in Greenland and the Faeroes.

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Page 20 WEEKLY SUMMARY

MIDDLE EAST - AFRICA

Some problems took on an optimistic note this week, but given the deep rooted antagonisms in the area such optimism is probably ephemeral.

Egypt's intentions to begin clearing operations to release the 15 cargo ships trapped in the Suez Canal since the June war may run afoul of Israel's insistence that Cairo reach some agreement with Tel Aviv before the operations begin. Even if Egypt decides to proceed unilaterally, however, Israel may hesitate to use military force to halt the work.

The new government in South Yemen has been able to function smoothly so far, although economic difficulties may prove insurmountable if additional aid is not forthcoming.

In Athens, recently released Andreas Papandreou may soon leave the country. Interior Minister Pat-takos says his request to travel to the US will be approved. Meanwhile, King Constantine remains in Rome amid doubts about his early return.

India's Congress Party leaders, at the party's first annual conclave since last February's general election, have declared their intention to move against failing non-Congress governments in several states. Indo-Pakistani relations suffered at least a temporary upset this week when the Pakistanis ousted an Indian diplomat for alleged espionage activities and India reciprocated in kind.

In the Nigerian civil war, Lagos army headquarters reports that Biafran resistance has eased both around Enugu and at Bonny on the coast. Lagos now is aware that Biafra has French mercenaries, and Gowon is reported to approve a policy of "no quarter for mercenaries."

There are some indications that Congolese President Mobutu may be willing to let the rank and file mercenaries now in Rwanda return to Europe, but developments since his hard-hitting press conference on 9 January criticizing the Rwandans introduce some doubt about his intentions.

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ARAB-ISRAELI TENSIONS REMAIN HIGH

Border clashes continue along the Israeli-Jordanian cease-fire line, and efforts to clear the Suez Canal may be stymied by Israel's insistence that Cairo reach some agreement with Tel Aviv before clearing operations begin.

Israeli and Jordanian forces have exchanged fire four times this month and tensions remain high. In a fire fight on 8 January, the Israelis used aircraft for the first time since 21 November to silence Jordanian artillery.

In some cases, the Israelis may be initiating the exchanges in retaliation for continued Arab terrorist infiltrations from Jordan. Israeli Minister of Defense Moshe Dayan recently said, "If the mine layings continue, it is doubtful if the population along the East Bank will be able to continue living where they do." On 1 January, firing apparently began between Israeli forces and terrorists on the occupied West Bank and, somewhat later,

the Israelis fired across the river into Jordanian-held territory, killing four refugees. Border clashes will con-

tinue as long as Arab terrorists cross Jordan to infiltrate Israel and the West Bank.

On another of Israel's borders, Egypt has indicated it is now willing to allow the release of the 15 cargo ships trapped in the Suez Canal since the June war. Egypt appears to be proceeding unilaterally toward moving the ships despite Israel's insistence that some prior agreement be reached with Tel Aviv before operations in the canal actually begin. UN officials in the area may be able to work out a satisfactory arrangement, but even if Egypt proceeds without Tel Aviv's consent, the Israelis may hesitate before using military force to halt such a nonmilitary operation.

Egypt, meanwhile, is having problems convincing other Arab states of the need for an early summit conference. In the face of Syrian and Saudi Arabian refusal to attend, the summit proposed for 17 January in Rabat has now been postponed indefinitely. Further efforts will likely be made to convince the recalcitrants to attend, but there is little hope the endeavors will be immediately successful.

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SOUTH YEMEN MAY FACE SERIOUS ECONOMIC PROBLEMS

The new government of South Yemen has been able to function smoothly so far but economic difficulties may prove insurmountable if additional aid is not forthcoming

Some of South Yemen's present air of stability results from the exile or detention of vocal political figures. Opposition elements--especially the Front for the Liberation of Occupied South Yemen (FLOSY)--are demoralized and lack effective channels of communication with their exiled leaders. The absence of daily newspapers pending a new press law has also helped calm the situation.

The new government is probably relatively popular upcountry, but its composition does not include influential elements in Aden other than the trade unionists. Government policies so far have been moderate; there has been no effective propaganda in favor of progressive-socialist doctrine, and the President has promised to preserve a "free economy." Foreign policy has been unadventurous, with pledges of friendship for all regardless of political orientation. Some of this moderation may result from the government's realization that British budgetary aid may be all that is keeping it from economic disaster. The British subsidy--12 million pounds--lapses in May, however, and its renewal is in doubt.

The army, purged of its most traditionalist officers, has

taken up with apparent seriousness its new role as shield of the National Liberation Front regime. Continued army support, however, is almost certainly dependent on the government's ability to pay salaries, and this may not be easy without British aid. Meanwhile, jobs are scarce, and many members of the British and Indian communities, which had generated jobs and commercial activity, have already left. Those businessmen who still remain are uneasy.

The external--and to some extent, internal--orientation of the new regime will probably depend largely on the source of future financial aid. So far, the government's announcement that it will take aid without strings from any country, East or West, has met with no response, although several countries have indicated their willingness to consider various types of technical assistance. The Saudi attitude toward the new government has been cautious, if not actively hostile, and Kuwait and Libya have been noncommittal. The USSR has not yet given any indication of what its role might be in the new state; two Soviet diplomatic officials from Cairo visited Aden briefly last month, but returned without any indication of their mission. Cairo radio, however, later announced that the USSR and South Yemen would exchange diplomatic relations at the ambassadorial level.

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EGYPTIAN ECONOMY BEARING UP UNDER SEVERE STRAINS

Egypt suffered a number of blows during and after the June war that exacerbated its already severe economic problems. The country, however, possesses a remarkable ability to get by under very adverse conditions, and with a little luck should be able to manage fairly well over the next few months.

Egypt's foreign exchange earning ability was severely hit by the closure of the Suez Canal and the curtailment of tourism following the events of last June. Its earning ability was further circumscribed by the damage inflicted upon Egypt's two main oil refineries at Suez in October. Large foreign debt obligations will probably remain a pressing problem.

How well the country manages in the immediate future depends largely on two rather uncertain factors. Egypt was promised \$250 million of annual aid at the Arab summit conference in September, and payments of this aid have made up for the loss of much of its foreign currency earning capacity. Although these payments have so far been prompt, there is no guarantee how long they will continue.

Egypt is also currently negotiating for a new agreement with

the International Monetary Fund which, if concluded, will facilitate debt rescheduling and help Egypt obtain new loans from Western sources. The agreement is not yet firm but prospects for its conclusion are good.

If the aid from its fellow Arabs continues, Egypt should be able to manage well enough over the next few months. Food on order appears adequate to cover requirements until the summer of 1968, and consumer necessities remain readily available, with rationing in effect on only a few items. A severe import curtailment program held Egypt's trade deficit in 1967 to the lowest level in recent years. The country's liquid foreign assets are currently slightly greater than comparable holdings in 1966.

Export prospects for 1968 also look bright under the circumstances. Oil exports will be affected by the loss of Sinai oil and the damage to the Suez refineries, but these losses will be somewhat offset by increased output from remaining oil fields. Major export crops appear to be doing well, and in 1968 Egypt will enjoy substantial benefits from the Aswan Dam in increased electrical power output and acreage under irrigation.

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WESTERN HEMISPHERE

The past week has been relatively quiet in Latin America, reflecting in part the long holiday season and the summer recess of many legislatures, schools, and universities.

Guyana's shaky coalition government is suffering new strains--this time over the proposed 1968 budget. [redacted] Peter D'Aguiar, the leader of the coalition's junior party, threatened to force his party to vote against the measure even if that meant bringing down Prime Minister Burnham's government and paving the way for pro-Communist opposition leader Cheddi Jagan to regain power. At week's end, opposition to this plan within his own party was apparently causing D'Aguiar to reconsider. His frustrations over the budget issue could, however, be the straw that decides him to pull out of political life and give up leadership of his party--an action that by itself would not bring Burnham down.

The Panamanian candidate for secretary general of the Organization of American States (OAS)--and the leader on the first four ballots--roiled the waters at a special meeting of the Council that he called for 8 January. In polemical language, he charged that a "sinister plot" with fascist-racist overtones had been fabricated by the press and the larger nations of the hemisphere to block his election. The sharp responses of several delegates suggest that he has damaged his relatively favorable prospects. There is presently no indication that any of the three contenders will garner the necessary votes for election on the fifth ballot, now set for 12 February, barring some kind of agreement between two of them. Failure to come up with a clear-cut consensus on a candidate by that time will further tarnish the image of the OAS. [redacted]

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CHILEAN PRESIDENT INCREASES POLITICAL SUPPORT

President Eduardo Frei won an important tactical victory at the national convention of his Christian Democratic Party (PDC) last weekend. He obtained party support for his controversial wage readjustment legislation, and installed one of his firmest backers as party president. He was unable, however, to get support for his proposed one-year ban on strikes over economic issues.

By defeating the left-wing group that had controlled the party leadership since last July, Frei overcame one of the obstacles to a wage law he considers vital to his stabilization program. The law provides for paying part of a pending wage increase in government bonds--a form of enforced saving that would slow inflation and create funds for social development projects.

The party's endorsement will improve Frei's chances for getting the law through the Chamber of Deputies but it still faces major opposition in the opposition-controlled Senate and is likely to emerge in much modified form. Even if it survives as written, the law's usefulness will be greatly curtailed by the failure to adopt a strike ban.

Frei's strong personal intervention was the deciding factor at the PDC convention. In the past, he has been criticized for taking an active interest in party affairs only in emergency situations. The fact that he was forced to make a second speech at 4 a.m. indicates that this was another emergency, but his success may encourage him to assume a more active role in party matters.

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COLOMBIAN ARMY TO MOVE AGAINST NEW GUERRILLA FORCE

The army is planning an operation designed to eliminate a guerrilla unit believed to be forming in northwestern Colombia. There have been reports of guerrilla training camps along the border between the departments of Antioquia and Cordoba for more than a year, and on 6 January two policemen and a civilian were killed in an attack on a police outpost in southern Cordoba.

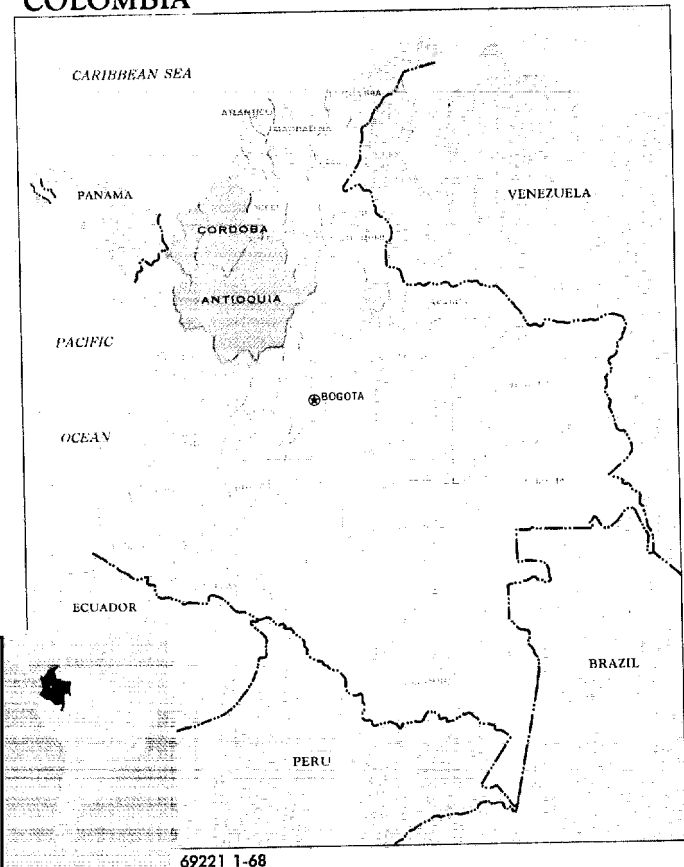
Police suspect the attack was led by Julio Guerra, allegedly one of the leaders of a new guerrilla group that reportedly has been responsible for many murders and kidnappings in southern Cordoba Department since last November. In the absence of government security forces, the guerrillas are reported to have virtually taken control of that area, and many residents have been forced to flee.

While government employees and the more prosperous farmers have been harassed, the guerrillas have attempted to win peasant support by distributing free drugs and medical assistance as well as Communist propaganda.

The increasingly serious reports coming from the area plus the army's recent success in combating guerrillas in other parts of the country prompted the military to plan a large-scale operation in the area. Most of their success, however, has come in rounding up urban support groups and in small-scale rural operations. Large sweep-through operations, such as the recent one in Communist stronghold of Sumapaz, have netted them very little.

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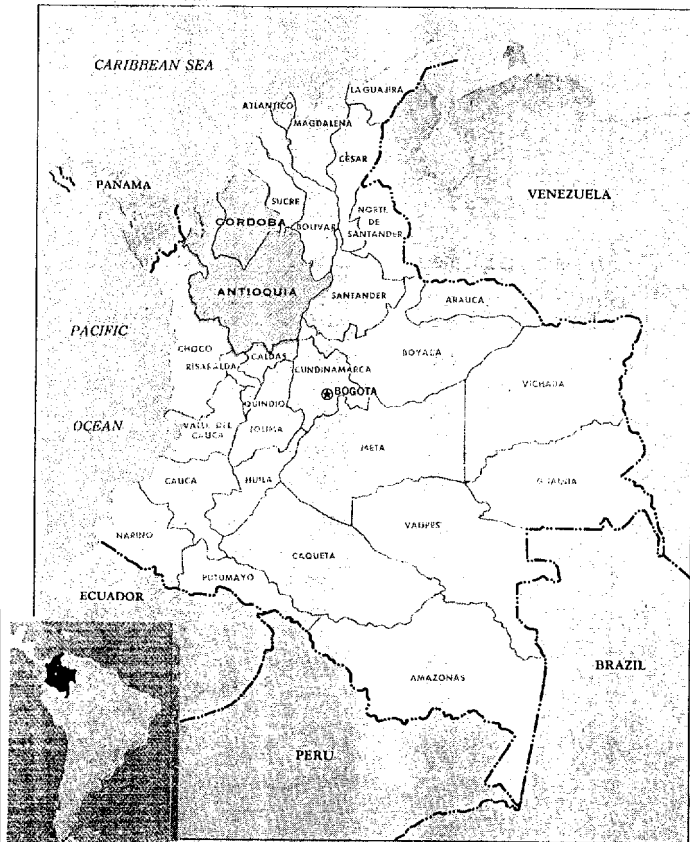
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GUATEMALAN GOVERNMENT BACKS DOWN ON TAX MEASURES

Events in Guatemala over the past week have pointed up the weakness of the Mendez government and could spur opposition elements into renewed activity.

On 5 January the government backed down on a sales tax measure after merchants, apparently in a consolidated effort, had raised prices even on items excluded from the tax. The resulting unrest was compounded when at the same time bus owners attempted to double fares in the capital.

Opposition political elements--especially the Communists---reportedly were planning to exploit the unrest, and there were also rumors of military discontent and plans for public demonstrations. During a series of emergency meetings on 4 and 5 January, President Mendez and his aides decided that the political situation was too fragile to survive such extensive opposition. Police officers were placed on buses to prevent the fare hike,

the tax was suspended, and the government urged the people to consider this a "patriotic act" in defense of the public's interest.

The tax suspension has reduced political tension, but it may complicate any future effort to enact or enforce measures that are not acceptable to vested interests or large sections of the population.

Moreover, the impression that the government panicked will be taken as a sign of weakness and will probably stir Mendez' opponents to probe for other soft spots.

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